LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7095 | **NOTE PREPARED:** Apr 10, 2003
BILL NUMBER: SB 520 | **BILL AMENDED:** Apr 10, 2003

SUBJECT: Exempt aircraft from property tax.

FIRST AUTHOR: Sen. Long | **BILL STATUS:** 2nd Reading - 2nd House
FIRST SPONSOR: Rep. Moses

FUNDS AFFECTED: X GENERAL | **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) This bill establishes a property tax deduction for 100% of the assessed value of aircraft: (1) owned or operated by certain air carriers or scheduled air taxi operators that have an Indiana corporate headquarters; or (2) operated to provide intrastate air service in Indiana. The bill provides that aircraft owned or operated by an entity with an Indiana headquarters is subject to the aircraft excise tax. It also permits use of a local airport authority cumulative building fund, subject to a cumulative maximum of $1,000,000, to facilitate and support commercial intrastate air transportation.

The bill imposes a one-time payment in lieu of taxes on a taxpayer claiming the deduction for aircraft owned or operated by certain air carriers or scheduled air taxi operators that have an Indiana corporate headquarters located in a county containing a school city. It also adjusts the maximum capital projects fund rate of a school corporation affected by the deduction.

Effective Date: (Amended) January 1, 2002 (retroactive); January 1, 2003 (retroactive); July 1, 2003; January 1, 2004.

Explanation of State Expenditures: (Revised) *Indiana Headquartered Airlines*: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Tax shifts from business personal property to other property cause the state's expense for regular PTRC and Homestead Credits to increase. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund, which is annually supplemented by the state General Fund. Therefore, any increase in PTRC or Homestead Credit payments would ultimately impact the state General Fund. The increased state expense under this bill is estimated at $173,000 in FY 2003 and $344,000 in FY 2004.

Explanation of State Revenues: (Revised) *Indiana Headquartered Airlines*: The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The annual revenue reduction under this proposal is estimated at about $1,700 each in FY 2003 and FY 2004.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Indiana Headquartered Airlines*: Effective with property taxes paid in 2004, this bill would provide a 100% property tax deduction for (1) passenger aircraft with a seating capacity of 90 passengers or less and (2) cargo aircraft that are owned by an air carrier or scheduled air taxi operator. To qualify for the deduction, the owner must have its corporate headquarters in Indiana or be a subsidiary of another corporation with its headquarters in Indiana. Affected taxpayers may also receive the deduction for taxes paid in 2003 if they file an amended personal property tax return by June 16, 2003 or within 30 days after tax bills are mailed.

Two airline taxpayers in Indiana have been identified as being impacted by the provision allowing an amended return for taxes paid in 2003. These taxpayers have reincorporated in Indiana as of February 26, 2003. Under current law, as Indiana corporations, these taxpayers will not be liable for property tax on aircraft beginning with taxes paid in 2004 and will instead pay aircraft excise tax. Therefore this provision only impacts the 2002 pay 2003 property tax year.

The exempt property under this bill is located in Allen and Marion Counties. Tax return information regarding 2002 assessments suggests that about $102 M in AV would qualify for the exemption under this bill. The analysis assumes that because of the late assessed value and tax rate certifications due to the current reassessment, the county auditors would be able to reduce certified AVs for taxes paid in 2003 by the amount of aircraft AV deducted under the bill.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the exemptions to all taxpayers in the form of an increased tax rate. In the event that 2002 Pay 2003 assessed values and tax rates are set before the aircraft AV can be removed, the 2003 tax shift amounts estimated below would actually be revenue losses for local units rather than shifts.

In Allen County, a $9.4 M reduction in AV would cause an estimated $0.0044 (0.2%) increase in the local gross tax rate and cause a gross tax shift of about $200,000 in CY 2003 from the taxpayer receiving the deduction to all taxpayers. The net tax shift (after PTRC and homestead credits) is estimated at about $164,000 in CY 2003. Local civil units and school corporations would lose about $25,000 in cumulative fund revenue in CY 2003.

In Marion County, the airline taxpayer would make a payment in lieu of taxes (PILOT) in the amount of the levy loss from the school capital projects fund (CPF) for taxes paid in 2003. Beginning with taxes paid in 2004, the CPF rate limit would be increased so that the levy that would have been lost due to the exemption would instead be shifted to other taxpayers. So, there would be no loss in IPS CPF dollars in 2003 or any other year as a result of the reduction in assessed value. Under current law, the CPF fund would have lost about $307,000 per year as a result of the taxpayer's change in domicile. This bill would negate that loss.

The $92.5 M reduction in AV in Marion County would cause an estimated $0.0212 (0.7%) increase in the local gross tax rate and cause a gross tax shift of about $2.5 M in CY 2003 from the taxpayer receiving the exemption to all taxpayers. The net tax shift (after PTRC and homestead credits) is estimated at about $2.0 M in CY 2003. Local civil units would lose cumulative fund revenue estimated at about $53,000 in CY 2003.

The total gross tax shift for all counties under this proposal is estimated at $2.7 M in CY 2003.

The total net tax shift (after PTRC and homestead credits) for all counties under this proposal is estimated at $2.2 M in CY 2003.

The total cumulative fund revenue loss is estimated at about $78,000 in CY 2003. Total local revenues, other than cumulative funds, would remain unchanged.

Clawback Provision: The bill contains a provision that would require a Marion County taxpayer that received the deduction for taxes paid in 2003 to repay part of the 2003 tax reduction if the taxpayer's level of operations in the county for any of the next 10 years falls below the 2002 operations level. The amount of taxes to be repaid would equal 100% of the 2003 tax reduction (less any PILOTS that are made) if the 2003 operations level falls. The repayment percentage would be reduced by 10% per year until 2013 when it would reach 0%. The Metropolitan Development Commission would determine compliance, subject to a hearing.

Aircraft Excise Tax: This bill would subject the airline property that is receiving the 100% property tax deduction to the aircraft excise tax. This tax is assessed on aircraft at different rates based on the type of engine, the maximum landing weight, and the age of the aircraft.

Intrastate Carrier: This provision provides a 100% property tax deduction for the assessed value of aircraft used in operations between an Indiana hub airport and another Indiana commercial service airport or between two Indiana commercial service airports. This deduction would be available only if the taxpayer or any other taxpayer provides air service between (1) Indianapolis and South Bend and (2) Indianapolis and Evansville. Currently, there are no taxpayers that would qualify for this deduction. If an airline or airlines begin to provide the specified intrastate service, some or all of their aircraft valuation could be deducted. In this case, total AV would not be reduced because the property was not located here to begin with. However, the deduction would keep the AV from being added to the tax base. If the airline is incorporated in Indiana or has an Indiana corporate headquarters, then the airline would be still be required to pay aircraft excise tax on its fleet.

Airport Authority Cumulative Funds: Under current law, airport authorities may impose a cumulative fund levy that may be used to acquire real property or to construct, enlarge, improve, remodel, repair, or equip buildings, structures, runways or other facilities for use in connection with the airport and needed to administer the airport. The bill would additionally allow money in the fund to be used to facilitate and support commercial intrastate air transportation. Spending from the fund for this new use would have a lifetime limit of $1 M. This bill would expand the possible use of the fund but would not change any levy authority.

Additional Information: There were 13 local airport authorities in CY 2002. Ten of them had cumulative funds with a total levy of $1.8 M.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Allen and Marion County auditors; Local governmental units and school corporations in Allen and Marion Counties; Airport Authorities.

Information Sources: Kurt Barrow, Assessment Director, Department of Local Government Finance (317) 232-3777; Local Government Database.

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